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February 24, 1997

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M St., N.W.
Washington, D.C. 20554

Re: CC Docket Nos. 96-262, 94-1, and 91-213
Access Charge Reform

Dear Mr. Caton:

This is to inform you that Catherine Sloan and Richard Fruchterman of WorldCom, Inc. and Peter Rohrbach and I of Hogan & Hartson L.L.P. met with James D. Schlichting, Chief of the Competitive Pricing Division, Common Carrier Bureau, and members of his staff regarding the positions in WorldCom's initial and reply comments in the above-captioned proceeding. The attached handout was used in the meeting. Two copies of this notice have been filed with the Office of the Secretary.

Respectfully submitted,

HOGAN & HARTSON L.L.P.

By: David Sieradzki
David L. Sieradzki
Counsel for WorldCom, Inc.

Enclosures

cc: James D. Schlichting, Jane Jackson, Richard Lerner, Douglas Slotten, Chris Barnekov, Belinda Garrett, Paul Glenchur, Aaron Goldschmidt, Katherine Schroder, Brad Wimmer

WORLDCOM, INC.

A Plan for Pragmatic Access Charge Reform

CC Docket No. 96-262
February 1997

Overview of Presentation

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I. INTRODUCTION:
WORLDCOM'S APPROACH TO ACCESS CHARGE REFORM

- WorldCom, Inc. -- December 31, 1996 merger brought together:
  - LDDS WorldCom
  - MFS
  - UUNet
- Our perspective is not merely that of a stand-alone IXC, CLEC, CAP, or Internet service provider -- but as a company at the center of the convergence of these market segments -- and as a future full service telecommunications provider.
- WorldCom supports a market-based approach to access charge reform -- and full implementation of local competition is the surest way to benefit consumers and reduce access rates.
  - Our plan would require only limited rate prescriptions initially, focused on elements that are the least susceptible to competition. Broader prescriptions would be necessary only if local competition does not develop.
  - Our plan would not result in precipitous changes in incumbent LEC access revenue, but it does not grant the incumbent LECs revenue guarantees either.
  - We support increasing the incumbent LECs' pricing flexibility -- but the timing is crucial. The Commission should resist calls for premature flexibility that would enable the incumbent LECs' to discriminate in favor of carriers (such as their own affiliates), and to avoid reducing overall access rate levels toward cost.

II. THE RELATIONSHIP BETWEEN ACCESS REFORM AND LOCAL COMPETITION

- For structural reasons, "access competition" per se is unlikely to reduce access costs for stand-alone IXCs.
- Rather, local competition will create market pressure on certain access charges, as integrated local and long distance carriers can avoid incumbent LEC access charges by winning local customers from incumbent LECs.
  - Charges to end users -- should become competitive, as incumbent LECs compete with new entrants for end user business, if local competition develops.
  - Special access and dedicated transport -- should become competitive if local competition develops.
  - Originating usage charges -- will remain a bottleneck for stand-alone IXCs; but will become avoidable to extent IXCs can self-supply (using their own facilities or incumbent LEC unbundled network elements) by winning customers local business.
  - Terminating usage charges -- will not become competitive, because party placing the call (or the IXC) does not influence the called party's choice of local provider.
  - Bulk-billed charges -- by definition could never become competitive.
- Market-driven access reform works only if NO access charges are applied to unbundled network elements. The Commission must reaffirm this essential part of the Local Competition Order. An uneconomic access charge "tax" on unbundled network element rates would thwart local competition and would doom market-based access reform.

III. WORLDCOM'S ACCESS REFORM PLAN

A. Use Local Competition to Drive Access Reform; Use Access Reform to Drive Local Competition

1. **Local competition is the best way to discipline incumbent LECs' access rates and achieve long-term access reform.**

   - Rate structure reforms can help facilitate local competition, together with prescriptive rate level changes targeted to rates that will not be subject to competitive pressure.

     ⇒ An immediate prescription of all rates to cost is unnecessary if the FCC takes all necessary steps to promote local competition.

2. **No incumbent LEC revenue stream should be guaranteed or shielded from competition.**

3. **The Commission must be vigilant to prevent discrimination and other anti-competitive conduct by the incumbent LECs during the transition to competition.**

   - During the transition period, the Commission must not allow forms of pricing flexibility that would enable incumbent LECs to discriminate in favor of affiliates or other favored customers, thus forestalling local competition without bringing overall rates toward cost.

   - Some expanded pricing flexibility can be given to incumbent LECs that have fully satisfied the competitive checklist, and further flexibility once substantial competition develops.

     ⇒ But if, by a date certain, an incumbent LEC has not satisfied the checklist, the Commission should prescriptively reduce all of its access rates to TSLRIC.

B. Baseline Rate Structure and Rate Level Changes to Set the Stage for Local Competition

1. <u>Subscriber Loops</u>

- Eliminate the per-minute CCL charge.
- Eliminate the cap on SLCs for all lines, or at least for business and additional residential lines.
- Recover any remaining loop costs as <u>flat rate</u> from IXCs.
- Exercise Section 10 authority to forbear application of Section 254(g) to permit IXCs to recover flat-rate access costs in a geographically deaveraged manner, as they wish and as the market dictates.

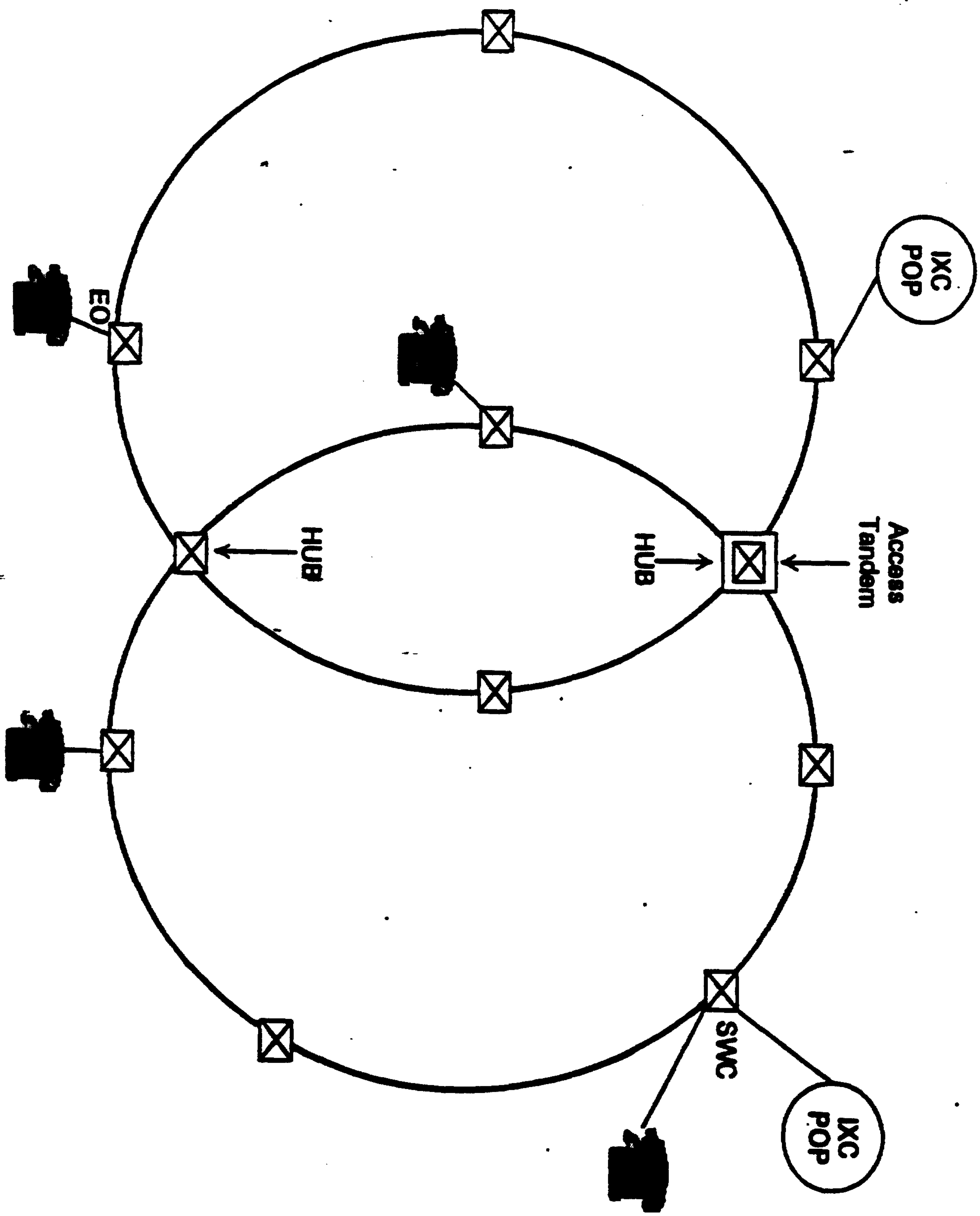
2. <u>Local Switching</u>

- <u>Rate Structure</u>: Create a <u>flat rate</u> charge to IXCs to recover the costs of line-side switch ports.
- <u>Rate Level</u>:
    - Line-side switch ports: Initialize new rate element at TSLRIC times interstate allocation (pending separations reform, use interstate allocator based on relative use, or 25% as with loop).
    - Terminating usage charge: Re-initialize rate at TSLRIC, because unlikely to become competitive.
    - Originating usage charge: Re-initialize to recover remaining local switching revenues.
- <u>Price cap treatment</u>: Place each of these elements in a separate service category.

3. Transport and Special Access

- Tandem Switching: In response to the CompTel v. FCC remand, re-initialize rate at TSLRIC.
  - Cost studies should use "lowest of the low" to ensure reasonable allocation of forward-looking common cost loadings to tandem switching and other trunking offerings.
  - Pending development of acceptable cost studies, can use 0.15 cents per minute proxy from the Local Competition Order.
- No other rate structure or rate level changes are necessary at this time.
  - Special access and high-capacity dedicated transport should not be removed from price caps or otherwise deregulated at this time.
    - ⇒ These services are not yet broadly competitive: the incumbent LECs have not even met the existing expanded interconnection thresholds in many parts of the country.
    - ⇒ And any such flexibility should await satisfaction of the competitive checklist (Phase I) and a specific showing of substantial competition (Phase II).
  - The Commission should not get bogged down in revisiting the non-remanded issues in the Transport Rate Structure and Pricing proceeding.
    - ⇒ But if it does so, dedicated and common transport, which use identical inter-office network facilities, must be treated consistently.
    - ⇒ Rather than shifting dollars from the TIC to common transport, a forward-looking cost study would have to be conducted for both common and dedicated transport.
    - ⇒ In the current, "ring-shaped" interoffice network, costs are not very distance sensitive. The partitioned rate structure is not cost-based, and mandating it makes little sense.

The Incumbent LEC Inter-Office Transmission Network



4. <u>SS7</u>

- All agree that SS7 costs must be removed from the TIC.
- Incumbent LECs should not recover any of the shared costs of their SS7 networks from access customers.
  - Incumbent LECs use IXCs' SS7 networks as much as the other way around, yet the Commission has forbidden IXCs from recovering the costs of certain SS7 functions from the incumbent LECs. (Caller ID)
  - "Bill-and-keep" makes sense in this context: actual costs are relatively low, transaction costs are high, and traffic flows are roughly balanced.
  - Incumbent LECs recover their SS7 costs from their own end user customers, through vertical feature charges. Imposing charges on IXCs as well would constitute double recovery.
- (But we support the existing recovery of the costs of dedicated SS7 facilities from the customers that use them, and the offering of incumbent LECs' SS7 systems as an unbundled network element under Sections 251 & 252.)

5. <u>Transport Interconnection Charge</u>

a. WorldCom's Proposal for Restructuring and (Over a Short Transition Period) Eliminating the TIC

- <u>Rate Structure</u>: Restructure the TIC as a <u>flat rate</u> per presubscribed line, to maximize competitive pressure (by enabling full-service carriers that "win" the end user to avoid the charge).

- <u>Rate Level</u>: Eliminate the TIC by 1/1/1999, using the following mechanisms:

  - <u>Universal Service</u>: Target to the TIC all reductions in access charges due to implementation of competitively neutral universal service mechanisms.

  - <u>Price Cap Rate Reductions</u>: Target to the TIC all overall access charge rate reductions due to price cap productivity adjustments and consumer productivity dividends. Bring home the <u>Fourth Further NPRM</u>.

  - Reduce the TIC to reflect certain cost misallocations that inflate access charges:

    ⇒ Eliminate from the TIC the costs of SS7, LIDB, and other related signalling services.

    ⇒ Remove revenues associated with the completed amortization of equal access network reconfiguration ("EANR") costs.

    ⇒ Remove costs of non-regulated services, such as GSF associated with billing & collection.

- It is impossible to identify the "costs" in the TIC, and it would be counterproductive to try. The TIC represents the residual revenues in connection with the transport rate restructure.

b. The Commission Must Not Establish Guarantees That Would Shield Incumbent LEC Revenues From Competition

- The worst thing the Commission could do in this proceeding would be to create (or perpetuate) a means to ensure that incumbent LECs continue to recover revenues shielded from competitive pressure. By definition, local competition would have no effect in reducing such a charge. This would harm:
  - Interexchange competition, by perpetuating uneconomic access charges, which cause high long distance rates that harm consumers.
  - Local competition, making it difficult for new entrants, with no comparable guaranteed revenue streams, to compete, and facilitating cross-subsidization by incumbent LECs.
  - Full-service competition, establishing a major barrier to entry -- a revenue transfer from competing providers of long distance (and local) service to their incumbent LEC competitors -- that could lead to a "price squeeze." Each of these would harm consumers by depriving them of the benefits of competition.
- The incumbent LECs have a right to a "reasonable opportunity" to recover their investments -- not a guarantee.
  - Under competition, they should keep revenues only to the extent that they can retain and grow their customer base in a competitive manner -- not through regulatory subsidies.
  - There is no legal basis for the Commission to impose a residual subsidy fund.
  - The theory that inadequate past depreciation entitles incumbent LECs to a revenue stream insulated from competitive pressure: is antithetical to competition; is inconsistent with price cap regulation; and would unreasonably shift the risks of technological change from regulated utilities to ratepayers.

C. Manage the Transition to Competition by Offering Incentives to the Incumbent LECs

- Phase I -- "Potential Competition"

  - Triggers: As proposed in the Notice -- plus cost-based and non-discriminatory non-recurring charges; full implementation of competitively neutral universal service support; elimination of the TIC; and credible and timely enforcement of pro-competitive rules.

  - Flexibility measures permitted: geographic deaveraging of all access services; term discounts of no more than 3 years; streamlined regulation of truly new services that cannot be substituted for existing services.

    ⇒ But not: Contract tariffs; competitive response tariffs; additional authority for volume discounts or term discounts longer than 3 years; deregulation of so-called "new" services that are substitutes for existing services.

- Phase II -- "Substantial Full-Service Competition"

  - Triggers: Market measures showing no less competition than AT&T faced when its services were streamlined in 1991.

  - Flexibility measures permitted: all proposed in Notice (except retain rate structure rules, especially for non-competitive terminating access).

  - Consider subdividing into two or more intermediate phases.

  - Price cap reform: restructure to create one "network services" basket with nine service categories.

- If an incumbent LEC has not satisfied the competitive checklist by Jan. 1, 1999, the Commission should prescribe all of its access rates based on forward-looking cost.

IV. A STAGED APPROACH TO IMPLEMENTING ACCESS CHARGE REFORM

- Access Reform Order #1: Adopt in April/May 1997, implementing tariffs effective 7/1/97
    - Set the stage for local competition.
        - ⇒ Reform the access rate structure
        - ⇒ Undertake the analytically straightforward, targeted rate level prescriptions
        - ⇒ Define Phase I triggers and pricing flexibility
- Access Reform Order #2: Adopt in Fall 1997, implementing tariffs effective 1/1/98
    - Complete the analytically more difficult tasks.
        - ⇒ Complete Fourth Further NPRM in Price Caps
        - ⇒ Complete plan to eliminate the TIC
- Access Reform Order #3: Adopt in early 1998, implement based on incumbent LEC performance and competitive conditions
    - Establish plan for reducing regulation as competition develops -- and fall-back in case it does not develop
        - ⇒ Specify triggers and pricing flexibility for phases beyond Phase I
        - ⇒ Specify prescriptive measures if incumbent LECs do not meet Phase I checklist
        - ⇒ Address ESP/ISP issues

ATTACHMENT A

WORLDCOM ACCESS REFORM PLAN

(Summary of comments filed January 29, 1997)

SUMMARY

A. WorldCom's Perspective on Access Reform

- **Access reform should promote consumers' closely inter-related interests in lower long distance rates and future local competition.**

  – Access is fundamentally different from end user services: access is primarily a production input that carriers use to create end user services.

  – Today, monopoly ILEC access charges artificially inflate long distance rates for all consumers.

  – For structural reasons, "access competition" per se is not possible in ways that would reduce the access costs of stand-alone IXCs. Rather, ILECs will face pressure on their access rates only with the development of local competition, and the ability of competing carriers to supply access to local customers they have won from the ILECs.

- **Access reform should make use of competitive pressure on access rates where possible, recognizing that some access rate elements are much less subject to such pressures.**

  – Charges to end users: Incumbent LECs and new entrants will compete directly for end user business, so charges to end users are likely to become competitive -- if local competition develops.

  – Charges to carriers:

  Special access and dedicated transport -- should become competitive if the 1996 Act is implemented successfully.

  Originating switched access charges -- will remain a bottleneck for stand-alone IXCs, and will not become competitive per se. But will become avoidable to the extent IXCs can self-supply originating access through vertical integration, as full-service local and long distance carriers, or through special access.

  Terminating switched access charges -- are not likely to be subject to competition in the foreseeable future, because the party placing the call -- or that party's IXC -- has little or no ability to influence the called party's choice of local carrier.

  Bulk billed-type charges -- charges imposed whether or not a carrier uses ILEC access by definition could never become competitive.

B. Governing Principles for Market-Driven Access Reform

1. **Local competition is the best way to discipline incumbent LECs' access rates and achieve long-term access reform.**

   – In the short run, the Commission must make rate structure reforms that facilitate local competition, and prescriptive rate level changes targeted to rates that will not be subject to competitive pressure. Comprehensive rate level prescriptions can be avoided initially.

   – In the somewhat longer term, the Commission should use both "carrots" and "sticks" to induce the incumbent LECs to provide interconnection and unbundled network elements at reasonable rates, terms, and conditions.

     > The "carrot": incumbent LECs that have fully satisfied the competitive checklist should be allowed certain forms of pricing flexibility.

     > The "stick": if an incumbent LEC has not fully satisfied the checklist by a date certain, the Commission should proceed with aggressively prescriptive access rate reductions.

2. **No incumbent LEC revenue stream should be guaranteed or shielded from competition.**

   – A guaranteed revenue stream would be inconsistent with market-based access reform; it would eliminate competitive discipline for such revenues, and thus perpetuate above cost access charges.

   – It would also create a formidable barrier to entry, giving incumbent LECs a revenue stream not available to their competitors that they could use to cross-subsidize competitive services.

   – Under the 1996 Act, the incumbent LECs have no legal right or policy basis for guaranteed recovery of past investments.

3. **The Commission must be vigilant to prevent discrimination and other anti-competitive conduct by the incumbent LECs during the transition to competition.**

   – During the transition period, the Commission must not allow forms of pricing flexibility that would enable incumbent LECs to discriminate in favor of their affiliates or other favored customers, thus forestalling local competition without bringing overall access rates closer to cost.

   – Such discriminatory forms of pricing flexibility include contract tariffs, competitive response tariffs, additional authority for volume discounts or discounts for terms longer than 3 years, or deregulation of "new" services.

C. Recommended Baseline Access Rate Structure and Rate Level Changes to Set the Stage for Local Competition.

- Rate Structure:
  Recover the costs of dedicated facilities through non-traffic sensitive, flat rates:

  – Subscriber loops:

    > Eliminate the per-minute carrier common line charge.

    > Eliminate the cap on the subscriber line charges for all lines, or at least for business and additional residential lines.

    > Recover any remaining loop costs as flat rate from IXCs; forbear on Section 254(g) to permit IXCs to recover on a geographically deaveraged basis.

  – Line-side port component of local switching: Flat rate charge either on end users or on IXCs (with forbearance on Section 254(g)).

- Rate Level:

  Initial prescriptive rate level changes should be focused on elements least subject to competitive pressure. We recommend that the Commission initially set rates based on forward-looking economic costs only for the following:

  – Terminating Local Switching -- because terminating switched access rates are least likely to become subject to competitive pressure.

  – Tandem Switching -- in response to the CompTel v. FCC remand.

  – Line-Side Port Component of Local Switching -- to initialize a new rate element and adjust the per-minute charge accordingly.

- Transport Interconnection Charge:

  – Eliminate the TIC immediately, or as soon as possible.

  – Take first from the TIC all access rate reductions due to universal service, price caps, and end of equal access reconfiguration amortization; remove SS7 costs, retail marketing costs, and costs of non-regulated facilities from the TIC.

  – Modify the rate structure of any residual TIC to be a flat rate charge per presubscribed line.

D. Manage the Transition to Competition By Offering Incentives to ILECs

- Phase I -- "Potential Competition": Incumbent LECs that are providing unbundled network elements under pro-competitive terms and conditions and at forward-looking cost based rates, and that fully comply with other prerequisites to local competition, should be permitted certain forms of pricing flexibility:

  - At Phase I, permit: geographic deaveraging of all access services; term discounts of no more than 3 years; streamlined regulation of truly new services (that cannot be substituted for existing access services).

  - Do not permit: contract tariffs; competitive response tariffs; additional authority for volume discounts or discounts for terms longer than 3 years; or deregulation of services that can be substituted for existing services.

  - Competitively neutral universal service mechanisms should be fully implemented and the TIC should be eliminated before Phase I measures are allowed.

- Phase II -- "Substantial Full-Service Competition": Incumbent LECs that can show an economically substantial degree of full-service competition, measured using the Herfindahl-Hirshman Index, should be allowed additional pricing flexibility.

  - But the Commission should not deregulate the rate structure rules for dominant ILECs (especially for terminating access).

  - The Commission could consider subdividing Phase II into two intermediate phases ("emerging full service competition" and "substantial full service competition"). Such distinctions could permit a more tailored approach to further ILEC rate regulation.

- If an incumbent LEC has not fully complied with the checklist of local competition prerequisites by Jan. 1, 1999, the Commission should prescribe all of its access rates based on forward-looking economic cost.

E. Retain the Rule that Information Service Providers Need Not Pay Interstate Carrier Access Charges.

Comments of WorldCom, Inc. ● CC Docket Nos. 96-262 et al. ● January 29, 1997

TABLE 1: SUMMARY OF WORLDCOM'S PROPOSED ACCESS CHARGE REFORM TRANSITION PLAN BASED ON THE TWO-PHASED APPROACH DESCRIBED IN THE NOTICE

Phase of Competitive Development	Triggering Conditions	Regulatory Changes
Baseline	None.	• Baseline rate structure changes. • Prescriptive rate level changes for tandem switching, terminating local switching, and local switch port charges. • Eliminate the TIC (or rapidly phase it out).
Phase I: "Potential Competition"	• Unbundled network element prices based on geographically deaveraged, forward-looking economic costs -- and offered under pro-competitive terms and conditions. • Cost-based rates for local transport & termination. • Resale rates based on retail less avoided cost. • Network elements and services provisioned rapidly and effectively. • Dialing parity, number portability, access to rights of way, and open and non-discriminatory network standards and protocols. • Full implementation of competitively neutral universal service mechanisms and TIC eliminated. • Credible and timely enforcement of pro-competitive rules. • Cost-based and non-discriminatory non-recurring charges.	• Geographic deaveraging of carrier access charges and SLC. • Term discounts (up to 3 years). • Streamlined regulation of new services if cannot be substituted for existing services. • Differential pricing of carrier access services for traffic that originates from or terminates to residential, single-line business, or multi-line business customers.
Phase II: "Substantial Competition"	• General market conditions that the Commission found before streamlining AT&T's regulation in 1991. • Herfindahl-Hirshman Index level for the particular local market that is at least as low as that in the long-distance service markets for which AT&T's regulation was streamlined in 1991.	• Volume discounts. • Term discounts for any length term. • Contract tariffs and competitive response tariffs. • Streamlined regulation of "new" services that can be substituted for existing services. • Elimination of separate baskets, service categories, and rate structure rules for trunking and local switching.
Absence of Potential Competition	• Conditions for Phase I not satisfied by Jan. 1, 1999.	• Prescription of all access charges at forward-looking economic cost.

TABLE 2: AN EXAMPLE OF AN ALTERNATIVE ACCESS CHARGE REFORM TRANSITION PLAN USING MORE THAN TWO PHASES

Phase of Competitive Development	Triggering Conditions	Regulatory Changes
Baseline	None.	• Baseline rate structure changes. • Prescriptive rate level changes for tandem switching, terminating local switching, and local switch port charges. • Eliminate the TIC (or rapidly phase it out).
Phase I: "Potential Competition"	• Full implementation of all items on competitive checklist (see Table 1). • Full implementation of competitively neutral universal service mechanisms and TIC eliminated. • Credible and timely enforcement of pro-competitive rules. • Cost-based and non-discriminatory non-recurring charges.	• Geographic deaveraging of carrier access charges and SLC. • Term discounts (up to 3 years). • Differential pricing of carrier access services for traffic that originates from or terminates to residential, single-line business, or multi-line business customers.
Phase II-A: "Emerging Full-Service Competition"	• Competitive presence test -- availability of local telephone service from facilities-based competitors to a certain minimum percentage of both business and residential customers throughout the relevant geographic area	• Streamlined regulation of new services if cannot be substituted for existing services. • Term discounts for any length term. • Volume discounts with cost showing justifying both rate level of discounted offering and rate relationship to non-discounted offering.
Phase II-B: "Substantial Full-Service Competition"	• General market conditions that the Commission found before streamlining AT&T's regulation in 1991. • Herfindahl-Hirshman Index level for the particular local market that is at least as low as that in the long-distance service markets for which AT&T's regulation was streamlined in 1991.	• Volume discounts with less justification required. • Contract tariffs and competitive response tariffs. • Streamlined regulation of "new" services that can be substituted for existing services. • Elimination of separate baskets, service categories, and rate structure rules for trunking and local switching.
Absence of Potential Competition	• Conditions for Phase I not satisfied by Jan. 1, 1999.	• Prescription of all access charges at forward-looking economic cost.

SUMMARY

- **WorldCom's Access Reform Plan – A Third Way.**
  - An immediate prescription of all access rates to cost is unnecessary if the FCC takes all necessary steps to ensure that local competition has a reasonable chance to grow in the near future.
  - On the other hand, a market-based approach will not work if ILECs are allowed excessive pricing flexibility that could facilitate discrimination, or if their revenues are guaranteed free of competitive pressure.
  - Instead, WorldCom supports a market-based approach that would rely primarily on local competition to drive originating access rates toward cost, and would use access reform to promote local competition:
    - > Reform access rate structure and certain rate levels: Expose most ILEC access services to competitive pressure, while reducing rates for services (e.g., terminating usage) that will never be competitive.
    - > Use "carrots" and "sticks": Offer ILECs non-discriminatory forms of pricing flexibility to induce them to fully implement local competition; reserve threat of rate prescriptions if they do not.
- **The ILECs' Over-Reaching Arguments for Both Revenue Guarantees and Deregulation are Mutually Inconsistent, and Must Be Rejected.**
  - Revenue guarantees, such as "bulk billing" or depreciation recovery mechanisms, are inconsistent with a competitive marketplace. Further, there is absolutely no legal or policy warrant for such guarantees.
  - Premature deregulation or streamlining of ILEC access regulation would enable the ILECs to squelch local competition.
  - An uneconomic access charge "tax" on unbundled network elements would thwart local competition, and would doom market-based access reform.
  - No transport rate structure or pricing changes are necessary now. But if the FCC elects to revisit this issue, common and dedicated transport must be treated consistently, using an accurate understanding of the geodesic interoffice network. (See attached diagram.)
  - The ILECs must not be allowed double recovery of the shared costs of their SS7 networks from vertical service offerings and carriers. Instead, adopt "bill-and-keep" for carrier-to-carrier SS7 network interconnection.
  - Unlike the ILECs' proposals, WorldCom recommends pragmatic reforms to existing price cap baskets and service categories.

WORLDCOM'S PROPOSAL FOR GRADUAL IMPLEMENTATION OF ACCESS REFORM

Timing of Order	Issues to Address	Likely Results
Adopt in April/May 1997; ILEC tariffs effective 7/1/97	Rate Structure • Eliminate per minute CCL and recover all subscriber loop costs through flat rate charges • Establish flat rate for line-side local switch port • During transition, recover TIC as a flat rate charge Rate Level • Set initial level of switch port rate based on TELRIC times interstate allocation • Re-initialize terminating local switching based on TSLRIC • Remaining local switching revenues recovered through originating charges • Easiest rate level fixes to TIC (e.g., target universal service, price cap reductions) Phase I Triggers and Pricing Flexibility • (See WorldCom's initial comments)	• Makes rate structure more cost-based • Imposes most of rate burden on elements for which competitive pressure is most likely to be felt • Avoids up-front prescriptive rate reductions, but also avoids revenue guarantees • Incumbent LECs retain revenues to the extent they retain end user customers
Adopt in Fall 1997; ILEC tariffs effective 1/1/98	• Complete 4th FNPRM in price caps • Complete plan to eliminate TIC	• More analytically difficult measures to complete stage setting for local competition
Adopt in early 1998; implementation based on ILEC performance and competitive conditions	• Specify triggers and pricing flexibility for phases beyond Phase I • Specify prescriptive measures if ILECs do not meet Phase I checklist • Address ESP/ISP issues	• Establish plan for lessening of regulation as local and full-service competition develops further • Establish fall-back in case local competition does not develop